

OVERVIEW

The U.S. and California economies are taking longer than expected to recover from the current downturn, and the stock market has lost a considerable amount of ground since midyear. This has resulted in a significant downward revision in State revenues. General Fund revenues from the major tax sources are expected to fall to \$65.8 billion in 2003-04—far below the level of income the State expected to receive in the budget year as recently as the 2002-03 May Revision. This decline is by far the most dramatic loss of revenues California has experienced since World War II. This delay in the economic recovery has resulted in a budget shortfall in the current year and budget year totaling \$34.6 billion.

The Governor's Budget presents a balanced spending plan for the 2003-04 fiscal year and simultaneously calls for structural reform to enable California to meet its future physical infrastructure and human resources demands.

Resolving the Immediate Fiscal Crisis—The 2003-04 Budget closes the \$34.6 billion budget gap and reflects five key elements:

- ◆ It is balanced, whereby expenditures match available revenues.



- ◆ It includes difficult, but balanced decisions that are comprised of cuts/savings, State-local program realignment with dedicated revenue sources, fund shifts, transfers/other revenue, and loans/borrowing.
- ◆ It includes revenue increases only for local government. There are no tax increases for State government in this Budget.
- ◆ It contains a \$531 million reserve.
- ◆ It substantially eliminates the anticipated \$12 billion structural shortfall between revenues and expenditures in 2003-04.

Ensuring California's Long-Term Fiscal Integrity—This Budget calls for the development of a new fiscal blueprint for California's future:

- ◆ It calls Californians to action to reform both our existing revenue and expenditure policies to enable the State to provide for the needs of its citizens in the future, especially during periods of economic downturns.
- ◆ It seeks structural reform in State and local governance and finance to achieve more rational and responsive service delivery systems.
- ◆ It proposes restoration of Executive Branch authority to make mid-year adjustments to the budget when revenues fall significantly below budgeted forecasts.
- ◆ It urges the creation of a special budget reserve for proceeds from extraordinary revenue growth to be used for one-time expenditures.



Primary Features of the 2003-04 Governor's Budget

A Balanced Approach—This Budget contains substantial reductions in spending, increases revenues for local governments to preserve key programs pursuant to the State-Local Program Realignment, relies little on loans and borrowing, and spreads program reductions across all areas of State government.

Key Priorities Protected—With a shortfall of this magnitude, no area of the Budget can be held harmless. However, the Budget minimizes the impact of reductions to the greatest degree possible in several key program areas:

- ◆ **K-12 Education**—Education remains this Administration's first priority. Reductions to K-12 education account for 23.9 percent of all solutions to close the budget gap — significantly less than its proportionate share of General Fund spending (40.1 percent).
- ◆ **Health Coverage for Children**—This Budget protects funding to ensure every eligible child gets health coverage under the Healthy Families and Medi-Cal for Children programs and continues to expand efforts that streamline the enrollment process.
- ◆ **Public Safety**—This Budget protects key public safety programs, including enhanced security measures enacted after September 11, 2001, the Citizens' Option for Public



Safety, Juvenile Crime Prevention, Technology Funding for Local Law Enforcement, and the Rural and Small County Law Enforcement Assistance programs.

- ◆ **Environmental Protection**—This Budget continues funding of critical environmental programs by using bond funds, thereby reducing General Fund costs in 2003-04. This Budget also expands the principle of “polluter pays” by shifting the funding source for several enforcement and regulatory programs to fees paid by the regulated industries.

Clear Policy Choices—This Budget targets most reductions to specific programs, and in some cases, eliminates programs altogether where reduced levels of funding will render those programs ineffective.

All Tax Increases Go to Local Governments—This Budget contains no general tax increases for State government. Rather, this Budget increases taxes to preserve critical programs that are proposed to be realigned to local governments, including those serving our senior citizens and children and youth. These programs would be subject to significant reductions if they continued to be supported by the State General Fund.

Structural Reform—This Budget calls for action on key reform proposals to develop a new fiscal blueprint for California. These reform measures, among other things, must address an outdated revenue structure, an over-reliance on volatile revenue sources, and changes to statutory spending policies.



**Addressing A \$34.6 Billion Budget Gap:
Administration Takes Early Action**

- ◆ Governor submits 2002-03 Mid-Year Spending Reduction Proposals totaling \$10.2 billion to the Legislature in December 2002.
- ◆ Governor calls the Legislature into Extraordinary Session beginning December 9, 2002, to facilitate prompt action on these proposals.
- ◆ Administration directs state departments to freeze current-year spending, identify General Fund savings, and reduce expenditures.
- ◆ Since the beginning of this Administration's first term, more than 12,600 vacant state positions have been eliminated.



